

**REPORT OF THE AUDITOR-GENERAL TO NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE MOSHAWENG COUNCIL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION OF MOSHAWENG
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the accompanying financial statements of the Moshaweng Municipality which comprise the balance sheet as at 30 June 2009, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 6 to 18.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Cash and cash equivalents

4. The completeness and valuation of the bank and cash balance disclosed as R7 513 326 in note 7 to the financial statements could not be confirmed as the bank reconciliation did not reconcile. The following were noted:
 - a) The cash book balance per the bank reconciliation on 30 June 2009 differed by R240 744 when compared to the financial statements.
 - b) The bank balance per the bank reconciliation on 30 June 2009 differed by R138 495 when compared to the relevant bank statement.

The municipality's records did not permit the application of alternative audit procedures and therefore the impact on the financial statements could not be determined.

Fixed assets

5. The completeness, rights, valuation and existence of assets amounting to R269 402 639 (2007-08: R245 454 252) as disclosed in note 4 to the financial statements could not be confirmed due to the following:
 - a) An unexplained difference of R575 957 existed between note 4 and the fixed asset balance in the balance sheet.
 - b) An asset register was not maintained for the financial year and no asset count was done during the year. Therefore we were not able to perform a physical verification of assets.

The municipality's records did not permit the application of alternative audit procedures.

Expenditure

6. Expenditure amounting to R53 475 567, as disclosed in the income statement, was overstated by R20 484 382. Expenditure on the Department of Water Affairs and Forestry conditional grant was erroneously included in the income statement, instead of only accounting for it in note 2 (funds) to the financial statements.
7. Expenditure and creditors were overstated by R53 031 relating to transactions recorded in the 2008-09 financial year that should have been recorded in the 2009-10 financial year.
8. The occurrence and accuracy of expenditure amounting to R579 822 could not be confirmed as sufficient appropriate audit evidence could not be obtained.

Income

9. Income amounting to R57 119 896, as disclosed in the income statement, was overstated by R25 631 025. Conditional grant income received was erroneously included in the income statement, instead of only accounting for it in note 2 (funds) to the financial statements.

Creditors

10. The completeness and existence of creditors disclosed as R7 390 210 in note 9 to the financial statements could not be confirmed due to the following:
 - a) Sufficient appropriate audit evidence for the opening balance of the retention creditor amounting to R3 328 215 and other creditors amounting to R323 662 could not be obtained.
 - b) Creditors and expenditure were understated by R240 940 relating to transactions that were not recorded in the 2008-09 financial year.

There was no system in place to ensure complete and accurate accounting of creditors and no creditors reconciliations were done during the year. Therefore it was not possible to perform alternative procedures.

Debtors

11. The debtors balance was disclosed as R4 895 641 in note 6 to the financial statements. The completeness, existence and valuation of this balance could not be confirmed due to the following:
 - a) The VAT debtors balance in the financial statements was R3 724 478 more than the June 2009 VAT return. The municipality could not explain the difference.
 - b) VAT refunds, as confirmed with SARS, during the 2008-09 amounting to R2 458 750 could not be traced to transactions in the accounting records. This resulted in an overstatement of the VAT debtor and an understatement of the bank balance.
 - c) Trade debtors amounting to R339 867 were not included in the financial statements.
 - d) Input VAT amounting to R49 382 was erroneously claimed on the VAT returns and output VAT was not declared on sales of capital assets amounting to R36 965. This resulted in the overstatement of income, expenditure and the VAT debtor.

Accumulated surplus

12. The accumulated surplus was disclosed as R10 268 602 in the balance sheet. The valuation of this balance could not be confirmed as sufficient appropriate audit evidence could not be obtained for debit transactions amounting to R255 047 and debit adjustments amounting to R1 378 412 posted directly against the accumulated surplus.

13. Interest on investments amounting to R1 676 582 was received in the municipality's bank account. This transaction was accounted for by journalising it to the accumulated surplus (debit) and interest received (credit). Therefore the bank account and accumulated surplus were understated by this amount.

Conditional grants and other funds

14. The completeness of conditional grants and other funds amounting to R12 423 946 as disclosed in note 2 could not be confirmed due to the following:
- a) A comparison with the confirmations received from the Department of Water Affairs and Forestry and the municipal infrastructure grant (MIG) indicated an overstatement of R16 935 656.
 - b) Income amounting to R21 187 656 relating to the MIG and Department of Water Affairs and Forestry grants could not be traced to bank statements.
 - c) Sufficient appropriate audit evidence for debit adjustments to the MIG could not be obtained. These adjustments amounted to R22 962 227 and resulted in this fund having no balance at year-end.
 - d) The completeness of the income on the Premises Clearing Project amounting to R219 681 could not be confirmed as a confirmation could not be obtained.
15. Income amounting to R510 300 relating to the Premises Clearing Project was not recorded in the general ledger. Therefore the grant income and bank were understated by the above amount.

Commitments

16. Commitments were disclosed as R51 866 597 (no comparative figure disclosed) in note 20 to the financial statements. The completeness and valuation of commitments could not be confirmed as a result of the lack of a commitment register and a system to account for commitments. The amount disclosed in note 20 related to asset additions and not commitments. Commitments amounting to R9 205 456 that were not disclosed as commitments were identified during the audit.

Irregular expenditure

17. No irregular expenditure was disclosed in the financial statements. Irregular expenditure of R6 361 332 was incurred due to non-compliance with the MFMA and the Construction Industry Development Board (CIDB) Act, 2000 (Act No. 38 of 2000). The above amount related to the following:
- a) The municipality paid two municipal managers for a portion of the year and this resulted in irregular expenditure amounting to R212 222 due to non-compliance with section 77(1) of the MFMA.
 - b) The CIDB requires contracts to be advertised on their website. Contractors need to be registered with the CIDB. The municipality did not comply with these requirements as two tenders amounting to R6 149 110 were awarded that were

not advertised on the CIDB website and one of these contractors was also not registered with the CIDB.

Disclosure notes

18. Comparative figures were not presented for a number of notes disclosed in the financial statements. Note 18 on government grants and subsidies was not accurate as it contained a duplication amounting to R24 126 692.

Cash flow statement

19. I was not able to determine whether the cash flow statement and the related notes were accurate and complete due to the material effect on the cash flow statement and related notes, of scope limitations and identified misstatements as reported in this report.

Disclaimer of opinion

20. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have been unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of Moshaweng Municipality. Accordingly, I do not express an opinion on the financial statements.

Emphasis of matter

I draw attention to the following matter on which I do not express a disclaimer of opinion:

Basis of accounting

21. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

Other matters

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Material inconsistencies in other information included in the annual report

22. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements. Only the performance report was obtained.

Unaudited supplementary schedules

23. The supplementary information set out on pages 19 to 24 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

24. Payments were not always made within 30 days of receipt of invoices as required section 65(2)(e).
25. The municipality's 2007-08 annual report was not tabled by the end of January 2009 as required by section 127(2). The annual report was only tabled on 25 February 2009.
26. Evidence could not be obtained that the accounting officer submitted a consolidated report to the provincial treasury and the Auditor-General of all withdrawals made from the municipal bank account as required by section 11(4).
27. The municipality did not, by no later than 14 days after the approval of the budget, submit to the mayor a draft service delivery plan, budget implementation plan and draft annual performance agreements as required by section 69(3). The mayor did therefore also not comply with section 53(3)(b).

Municipal Systems Act

28. Evidence could not be obtained that the performance of the municipal manager and managers reporting directly to the municipal manager was reviewed as required by section 57. No performance bonuses were paid for the year.

Division of Revenue Act

29. The municipality did not have a three-year capital budget plan for schedule 4 allocations as required by section 15.

Supply Chain Management Regulations

30. The municipality did not have a list of accredited prospective providers of goods and services as required by the Supply Chain Management Regulations (per GNR868).

Governance framework

31. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

Internal control deficiencies

32. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control (the number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for disclaimer of opinion	CE	RA	CA	IC	M
4	Cash and cash equivalents	1,2,6,7	1,2,3	3,4,5	1,3	1,2,3
5	Fixed assets	1,2,6,7	1,2,3,4	3,4,5	1,3	1,2,3
6,7	Expenditure	1,2,7	1,2	3,4,5	1,3	1,2,3
8,9	Income	1,2,6,7	1,2	3,4,5	1,3	1,2,3
10	Creditors	1,2,6,7	1,2	3,4,5	1,3	1,2,3
11	Debtors	1,2,6,7	1,2	3,4,5	1,3	1,2,3
12,13	Accumulated surplus	1,2,6,7	1,2	3,4,5	1,3	1,2,3
14	Conditional grants and other funds	1,2,6,7	1,2	3,4,5	1,3	1,2,3
15	Commitments	1,2,6,7		4,5	1,3	1,2,3
16	Irregular expenditure	1,2,6,7		4,5	1,3	1,2,3
17	Disclosure notes	1,2,6,7		4,5	1,3	1,2,3
18	Cash flow statement	1,6,7		4,5	1,3	1,2,3

Legend	
CE = Control environment	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3

The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self -assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Key governance responsibilities

33. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		X
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.	X	
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.		X
Availability of key officials during audit			

5.	Key officials were available throughout the audit process.		X
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	• The municipality had an audit committee in operation throughout the financial year.	X	
	• The audit committee operates in accordance with approved, written terms of reference.	X	
	• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
7.	Internal Audit		
	• The municipality had an internal audit function in operation throughout the financial year.	X	
	• The internal audit function operates in terms of an approved internal audit plan.	X	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.	X	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.		X
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in 95(c)(i) of the MFMA.		X
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	X	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.		X
14.	SCOPA/Oversight resolutions have been substantially implemented.		n/a
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68 of the MFMA.		X
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

Clear trail of supporting documentation

34. The root cause for the audit outcome related to records management deficiencies, an overall lack of internal controls and a lack of competent people.

Quality of financial statements

35. The financial statements submitted for audit purposes contain various errors, including a number of duplications. Comparative figures were not presented for a number of notes and some notes did not tie to the relevant statements.

Timeliness of financial statements

36. The financial statements were not submitted to the Auditor-General by 31 August 2009, but on 2 October 2009. The municipality utilised consultants to compile the financial statements.

Availability of key officials

37. The municipal manager position was vacant during the year and various senior managers acted. Attendance of, and participation in, audit steering committee meetings were poor.

Risk management, internal control and governance

38. The municipality utilised the shared internal audit and audit committee services of the John Toalo Gaetsewe District Municipality.

Follow-up of audit findings

39. The matters reported in prior audit reports recurred and even new matters were identified. Management should compile an action plan to address the audit findings and the council should monitor the implementation thereof.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Reporting on performance information

40. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

41. In terms of section 121(3)(c) of the MFMA the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

42. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
43. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
44. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Lack of adoption or implementation of a performance management system

45. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

No mid-year budget and performance assessments

46. The accounting officer did not (by 25 January of each year) assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

Lack of source documentation

47. The reported actual achievement of targets could not be substantiated by adequate source documentation.

Reported performance information not relevant

48. The performance targets for most programmes were not:
- specific in clearly identifying the nature and the required level of performance
 - measurable in identifying the required performance
 - time bound in specifying the time period or deadline for delivery.

The following objectives were taken from the integrated development plan and serves as an example:

Development priority and objective	Key performance indicator	Target
To effectively manage disaster and prevention thereof on an agency basis	Assist the community with disaster that may occur in terms of capacity of the municipality	Ensure that any disaster that may occur is addressed
To undertake a game farming and hunting improvement initiative	Active use of the game farming and hunting facility by targeted beneficiaries and involvement of the technical experts and target market (tour operators)	Completion of the initial planning
Development of heritage sites	Initiate a Moshaweng Wide Heritage Research)	Facilitation of agreement with the South African Heritage Research Agency
To undertake the project: Heiningvlei Cave improvement	Active use of the facility by targeted beneficiaries and involvement of the technical experts and target market	Finalisation of initial project planning and involvement of stakeholders
To undertake a tourism promotion project	Develop tourism products flier. Advertisement of local tourism products in tourism publications.	Completion of the project

APPRECIATION

49. The assistance rendered by the staff of the Moshaweng Municipality during the audit is sincerely appreciated.

Auditor-General

Kimberley

1 February 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence